

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 AGR-10 PA-02 PRS-01 /111 W

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R 252115Z AUG 76

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 855

UNCLAS OTTAWA 3432

E.O. 11652: N/A

TAGS: EFIN, CA

SUBJ: BOUEY ANNOUNCES NEW TARGET GROWTH RATES FOR MONEY SUPPLY

REF: OTTAWA 2675

1. GERALD K. BOUEY, GOVERNOR OF BANK OF CANADA, ANNOUNCED ON AUGUST 24 THAT BANK WAS LOWERING TARGET RATES FOR GROWTH IN MONEY (MI) SUPPLY FROM ANNUAL RATE OF 10 TO 15 PERCENT SET LAST NOVEMBER TO 8 TO 12 PERCENT. IN BANK OF CANADA PRESS RELEASE, BOUEY STATED THAT "NEW TARGET RANGE WILL PERMIT MONETARY POLICY TO CONTINUE TO PLAY ITS PROPER ROLE IN HELPING TO RESTORE PRICE STABILITY OVER THE LONGER TERM WHILE AT THE SAME TIME PROVIDING SUPPORT FOR ECONOMIC GROWTH IN THE NEAR TERM."

2. NEWS RELEASE SAID THAT BASE FOR NEW TARGET RANGE WOULD BE "AVERAGE OF SEASONALLY-ADJUSTED CURRENCY AND DEMAND DEPOSITS FOR THE THREE MONTHS CENTERED ON MARCH 1976." BASE PERIOD FOR PREVIOUS TARGET RANGE WAS SECOND CALENDAR QUARTER OF 1975.

3. ACCORDING TO RELEASE, GROWTH IN MI FROM SECON QUARTER OF 1975 TO NEW BASE PERIOD WAS 12 PERCENT  
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"WHICH IS ABOUT THE CENTER OF THE PREVIOUS TARGET

RANGE."

4. "THE GOVERNOR NOTED THAT THE DEFINITION OF MI (CURRENCY AND CHARTERED BANK DEMAND DEPOSITS) IS NOT THE SAME AS THE DEFINITION USED FOR MI IN THE UNITED STATES AND THAT THE MONETARY GROWTH TARGETS IN THE TWO COUNTRIES ARE THUS NOT DIRECTLY COMPARABLE. TO BRING THE CANADIAN DEFINITION CLOSER TO THE AMERICAN IT WOULD BE NECESSARY TO INCLUDE CHEQUABLE BANK SAVINGS DEPOSITS. THE GROWTH OF THIS SOMEWHAT BROADER SERIES THAT WOULD BE CONSISTENT WITH THE 8 PERCENT TO 12 PERCENT TARGET RANGE FOR CURRENCY AND DEMAND DEPOSITS WOULD BE SOME 2 TO 3 PERCENTAGE POINTS LOWER."

5. NEWS RELEASE ALSO STATED THAT "THE GOVERNOR EMPHASIZED THAT THE ANNOUNCEMENT OF THE NEW RANGE DOES NOT SIGNAL A CHANGE IN THE CURRENT SETTING OF MONETARY POLICY SINCE THE RECENT TREND OF MI GROWTH HAS BEEN REASONABLY SATISFACTORY."

6. COMMENT: BOUEY SIGNALLED LOWER TARGET GROWTH RATES IN MONEY SUPPLY IN JUNE WHEN HE SPOKE TO CHAMBER OF COMMERCE IN FREDERICTON, N.B. ABOUT MONETARY POLICY (SEE REFTEL). HE THEN CLAIMED GROWTH IN MONEY SUPPLY WAS TOO HIGH AND TARGET RANGE WAS "BECOMING OUTDATED."

7. WITH SLIGHTLY MORE RESTRICTIVE MONEY SUPPLY GROWTH LEVELS, EMBASSY WOULD EXPECT THAT INTEREST RATE LEVELS (CURRENTLY 9.5 FOR BANK RATE, 10.25 FOR PRIME AND CLOSE TO 12 FOR CONVENTIONAL MORTGAGES) WOULD REMAIN AT HIGH LEVELS IN MONTHS AHEAD.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** MONEY, SPEECHES, INTEREST RATES, ANTIINFLATIONARY PROGRAMS, BANK LOANS  
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